



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

January 2022

Key highlights¹

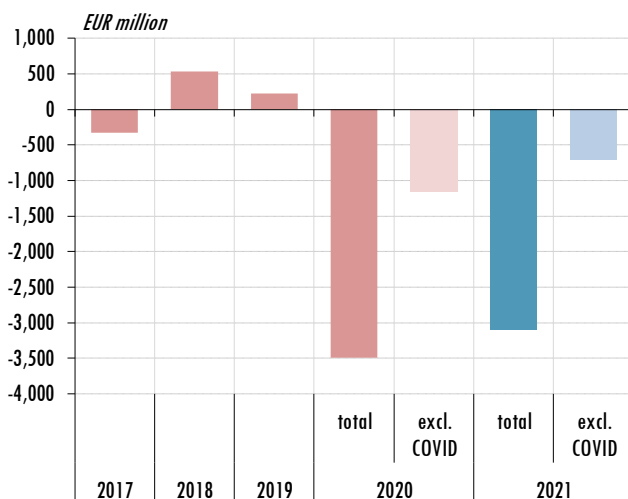
- According to provisional data, the state budget deficit amounted to EUR –3.098 billion in 2021, while without the direct effect of COVID-related measures, the deficit would have amounted to EUR –705 million. The deficit in both comparisons was smaller than in 2020, which is mainly the result of the revenue growth as economic activity has recovered.
- Last year, revenue was 23.1% higher than in 2020 or 14.6% higher without taking into account the direct effect of COVID-related measures.
- Last year, expenditure was 13.6% higher than in 2020 or 8.7% higher without taking into account the direct effect of COVID-related measures totalling EUR 2.790 billion. The latter was predominantly due to investment and higher labour costs.
- The total level of state budget expenditures for COVID-related measures from March 2020 to the end of December 2021 amounts to EUR 4.795 billion. The largest individual measure was allowances to employees of EUR 1.026 billion, of which EUR 822 million were paid last year.
- The actual implementation of the state budget confirms the Fiscal Council's concerns that the estimate of the outturn for 2021 prepared by the Ministry of Finance in September 2021 was unrealistic and as such inadequate for the preparation of the budget projections for 2022. This is in particular the case for the expectations on the level of expenditures (see Figure 2) which were in fact around EUR 700 million lower and also below the expenditure ceiling set in the revised framework for drafting general government budgets in April last year. The October revision of the framework, in which the expenditure ceiling was increased again, was therefore not necessary, because the outturn indicates that the Government could have only adopted a revised budget for 2021 in accordance with the established procedures.
- Preparing the budget documents for 2022 on the basis of an overestimated outturn for 2021 means that the projected level of expenditure for 2022 exceeds the level justified on the basis of the measures and legislation currently in force. The actual outturn for 2021 and the adopted budget for 2022 indicate that the growth of state budget expenditure, excluding the direct impact of COVID-related measures and investments, is expected to be 8.0% this year, which is even higher than in the previous two years and one of the highest growth rates ever (see Figure 3). State budget expenditure, excluding the impact of COVID-related measures and investments, could thus increase by around EUR 820 million this year, while at the time of the adoption of this year's budget based on the estimate of the outturn made in September, an implicit growth of EUR 470 million was foreseen. This increases the risks for a structural deterioration of public finance which have already been partly realised by the adoption of some measures following the approved amendments to the 2022 budget. The Fiscal Council thus expects that, at the end of the political cycle, no further measures will be taken that would reduce the manoeuvring room for fiscal policy in the years ahead and that the actual deficit in 2022 will be lower than projected in the adopted budget.

¹ The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology and COVID-related measures in its monthly publication, subject to availability of such data in the future. All comments pertain to data as at 5 January 2022. Along with the Ministry of Finance, we would like to thank the Financial Administration of the Republic of Slovenia (FURS), the Employment Service of Slovenia (ZRSZ) and the SID Bank for their cooperation and submitted data.

State Budget in 2021²

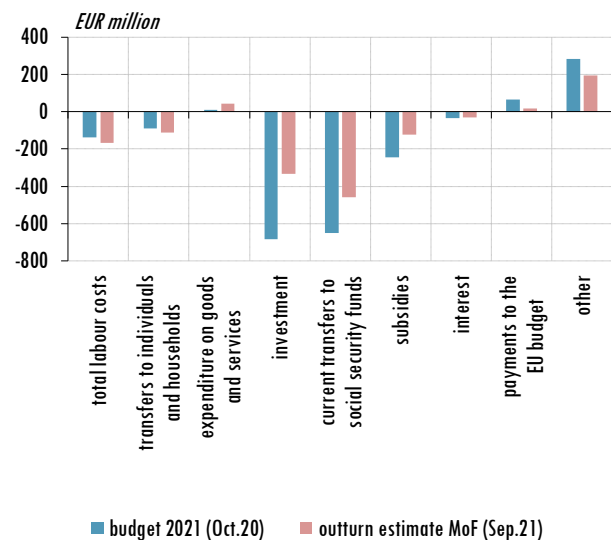
- With a EUR –559 million **deficit** being recorded in December according to preliminary data, the total **state budget deficit** in 2021 amounted to EUR –3.098 billion. Not counting the direct effect of COVID-related measures, the state budget deficit amounted to EUR –705 million.³
- **Revenue⁴** in 2021 amounted to EUR 11.175 billion, which is an increase of 23.1% compared to the previous year and EUR 145 million more than the estimated outturn prepared by the Ministry of Finance in September last year. Growth was largely due to the low base effect, as revenue fell sharply at the start of the epidemic in 2020, as well as a relatively rapid recovery in economic activity in 2021. The direct effect of COVID-related measures was positive last year (EUR 397 million), mainly due to the reverse effect of the measures related to the option of deferred or instalment payments of tax liabilities and exemptions from the advance payment of corporate income tax and personal income tax on activities, which caused a decrease in the total revenue in 2020 (EUR –364 million). As a result, revenue was 8.7% higher last year, without taking into account the direct effect of COVID-related measures.
- Revenue from the four main categories of tax revenue of the state budget (VAT, excise duties, personal income tax and corporate income tax) was 22.5% higher on a year-on-year basis last year. Excluding the direct effect of COVID-related measures, its growth was 12.0%. With the recovery of economic activity, revenue from these four categories of taxes, excluding the effect of the anti-crisis measures, was 2.7% or EUR 210 million higher than in the pre-crisis year of 2019. VAT revenue and personal income tax revenue exceeded the level from the same period in 2019 (by EUR 332 million and EUR 44 million respectively), while revenue from excise duties and revenue from corporate income tax lagged behind by EUR 122 million and EUR 44 million respectively.

Figure 1: State budget balance



Source: MoF, FC calculations.

Figure 2: Deviation of state budget expenditure excluding COVID measures outturn from projections



Source: MoF, FC calculations.

² The comments on the state budget implementation refer to the daily data available at: <https://proracun.gov.si/#> (Only in Slovene).

³ The difference between the cost of COVID-related measures (EUR 2.513 billion) and their effect on the state budget balance (EUR 2.393 billion) is due to EU-funded expenditure on COVID-related measures. In the estimate of the balance not accounting for the effect of COVID-related measures, the EU funds are subtracted from the published revenue from EU funds.

⁴ The growth of individual revenue categories may still change when the data for December are finally published, as preliminary data available at the beginning of this year showed that EUR 113 million of revenue was still unallocated.

- Income tax revenue increased by as much as 29.3% last year, which is associated with high growth in wages, mainly due to allowances in the public sector. Allowances are paid with the advanced payment of personal income tax, from which they are exempt by law. According to the Ministry of Finance, the final income tax assessment for allowances paid in 2020 amounted to EUR 54 million last year, while for allowances paid last year it is expected to amount to EUR 93 million this year.
- Non-tax revenue growth (22.3%) was among the highest ever, mainly as a result of higher extraordinary revenue from new borrowing and the concessions granted for the sale of mobile telephony licences, while revenue was almost for a half higher than anticipated in the budget adopted in October 2020.
- The revenue from EU funds amounted to EUR 833 million last year, which was an increase of 15% in comparison to 2020. Projections were again too optimistic, despite the conclusion of the Financial Perspective. The actual outturn was thus by around EUR 800 million lower than the October 2020 budget projections and by around EUR 380 million lower than the outturn estimate made in September (see Figure 4).
- Expenditure** was 13.6% higher last year than in 2020, primarily due to the direct impact of COVID-related measures totalling EUR 2.790 billion. Without this effect, expenditure would have been 8.7% higher, which is well above the multi-annual average. Its growth was only higher in 2008 and in 2009.

Table 1: State budget

	2020	Budget (Oct.20)			Outturn estimate (Sep.21)			Outturn (Jan.22)		
		2021	2021/2020		2021	2021/2020		2021	2021/2020	
			EUR million	%		EUR million	%		EUR million	%
Revenue	9,078	10,722	1,644	18.1	11,027	1,950	21.5	11,175	2,097	23.1
VAT	3,528	3,843	315	8.9	3,982	454	12.9	4,225	697	19.8
Excise duties	1,314	1,463	148	11.3	1,462	148	11.3	1,470	155	11.8
Personal income tax	1,164	1,288	124	10.7	1,532	368	31.6	1,505	341	29.3
Corporate income tax	773	957	184	23.8	1,091	318	41.1	1,108	335	43.3
EU funds	725	1,631	906	125.0	1,216	492	67.8	833	109	15.0
Non-tax	672	568	-104	-15.5	736	64	9.6	822	150	22.3
Other revenue	902	973	71	7.9	1,007	106	11.7	1,099	198	21.9
Unallocated								113		
Expenditure	12,564	13,469	904	7.2	14,986	2,421	19.3	14,273	1,709	13.6
Total labour costs	3,448	3,595	146	4.2	4,509	1,061	30.8	4,209	761	22.1
Transfers to individ. and households	1,966	1,640	-326	-16.6	2,565	599	30.4	2,541	575	29.2
Expenditure on goods and services	1,309	1,268	-41	-3.2	1,435	125	9.6	1,523	214	16.3
Investment	911	1,974	1,063	116.6	1,561	650	71.3	1,239	328	36.0
Current transfers to social sec. funds	1,403	1,750	347	24.7	1,560	156	11.1	1,379	-25	-1.8
Subsidies	1,398	661	-737	-52.7	946	-452	-32.3	815	-583	-41.7
Interest	772	762	-9	-1.2	756	-15	-2.0	727	-45	-5.8
Payments to the EU budget	526	565	39	7.4	612	86	16.4	629	103	19.5
Other expenditure	830	1,254	424	51.0	1,042	211	25.5	1,211	381	45.9
Balance	-3,488	-2,747	741		-3,958	-471		-3,098	389	

Sources: MoF, FC calculations.

- Almost half of total expenditure growth was due to higher labour costs, which also include transfers to public institutions for this purpose. Labour costs increased by 22.1% on a year-on-year basis, mainly due to the payment of allowances. Even without taking into account the effect of COVID-related allowances, total labour cost growth was relatively high at 5.6%. In addition, without taking into account COVID-related allowances, labour costs were around EUR 360 million or 11.7% higher than in the pre-crisis year 2019. Their growth, excluding allowances, is due to an increase in the number of employees, regular promotions, the easing of restrictions on performance-related bonus payments in the second half of 2020 and the agreement concluded with trade unions last year.⁵
- The higher volume of transfers to individuals and households (29.2%) also significantly contributed to total expenditure growth, which was a result of the large extent of COVID-related measures under this heading. Excluding the effect of COVID-related measures, transfers were lower than in 2020 (-3.2%).
- Last year, investment expenditure amounted to EUR 1.239 billion, representing a year-on-year increase of 36.0%. Despite the relatively high outturn, it fell significantly behind plans. The actual outturn was in fact EUR 735 million lower than the projections in the budget adopted in

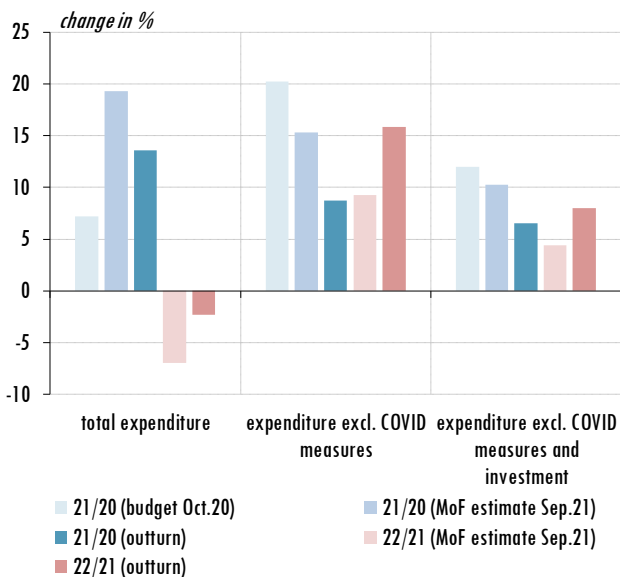
Table 2: Impact of COVID measures on state budget outturn

	2020		2021		excl. COVID	
	EUR million		EUR million		2021/2020	
	COVID	excl. COVID	COVID	excl. COVID	EUR million	%
Revenue	-324	9,402	397	10,778	1,376	14.6
VAT	-118	3,646	21	4,204	557	15.3
Excise duties	-56	1,370	48	1,421	51	3.7
Personal income tax	-27	1,191	70	1,435	244	20.5
Corporate income tax	-173	946	154	953	8	0.8
EU funds ¹	74	651	120	713	62	9.6
Non-tax	0	672	0	822	150	22.3
Other revenue	-24	925	-17	1,116	191	20.6
Expenditure	2,005	10,559	2,790	11,483	924	8.7
Total labour costs	196	3,252	776	3,433	181	5.6
Transfers to individuals and households	384	1,582	1009	1,532	-50	-3.2
Expenditure on goods and services	166	1,143	266	1,257	114	10.0
Investment	22	889	59	1,180	291	32.7
Current transfers to social security funds	135	1,268	1	1,378	110	8.6
Subsidies	965	433	414	401	-32	-7.3
Interest	0	772	0	727	-45	-5.8
Payments to the EU budget	0	526	0	629	103	19.5
Other expenditure	135	695	265	947	251	36.2
Balance	-2,329	-1,158	-2,393	-705	452	

Sources: MoF, FURS, FC estimates and calculations. Note: ¹The effect on balance of revenue from EU funds used for financing of COVID measures is neutralized, so that they are interpreted as higher total revenue from EU funds.

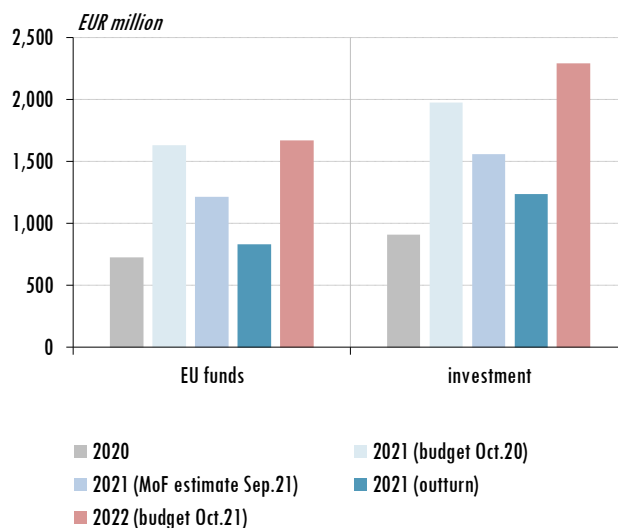
⁵ Available at: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=DRUG4909>. (Only in Slovene).

Figure 3: State budget expenditure



Source: MoF, FC calculations.

Figure 4: Revenue from EU funds and investment expenditure



Source: MoF, FC calculations

October 2020, and around EUR 320 million lower than the outturn estimate made by the Ministry of Finance in September last year (see Figure 4).

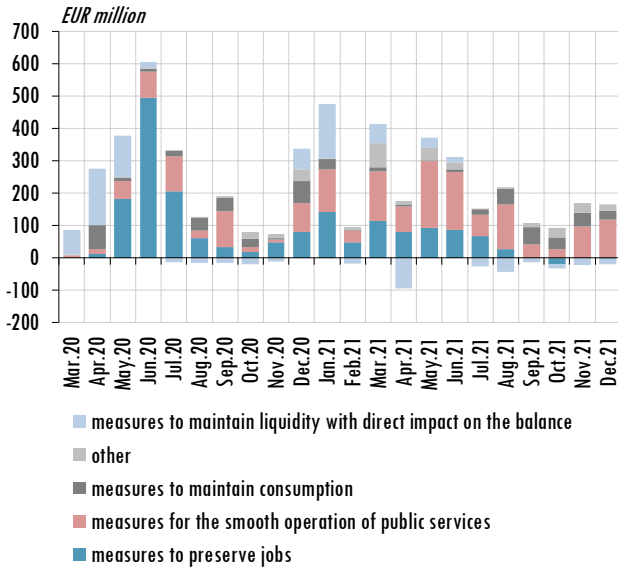
- Last year, transfers to social insurance funds were 1.8% lower than in 2020, while without taking into account the effect of COVID-related measures they were 8.6% higher. According to the Ministry of Finance, the latter is mainly the result of a higher transfer to the Health Insurance Institute of Slovenia for current expenditure, which has been attributed to a settlement for healthcare services provided at the end of 2020.⁶
- Expenditure on goods and services last year increased by 16.3%, while without taking into account the effect of COVID-related measures it grew by 10.0%. Expenditure on subsidies in both comparisons was lower than in 2020, primarily due to the high base effect. Total expenditure growth was also mitigated by interest expenditure, which was 5.8% lower due to a significant decrease in January.

Implementation of COVID measures in 2021

- Last year, state budget expenditure for COVID-related measures amounted to EUR 2.790 billion, and to EUR 4.795 billion since the beginning of the epidemic in March 2020. In December, expenditure on measures amounted to EUR 163 million. The actual outturn was only slightly different from the outturn estimate for 2021 made by the Ministry of Finance in September last year in an otherwise very different expenditure structure.
- In December, the majority of COVID-related expenditure included expenditure to fight the epidemic (EUR 104 million), mainly related to vaccination and testing, and tourist voucher payments (EUR 26 million).

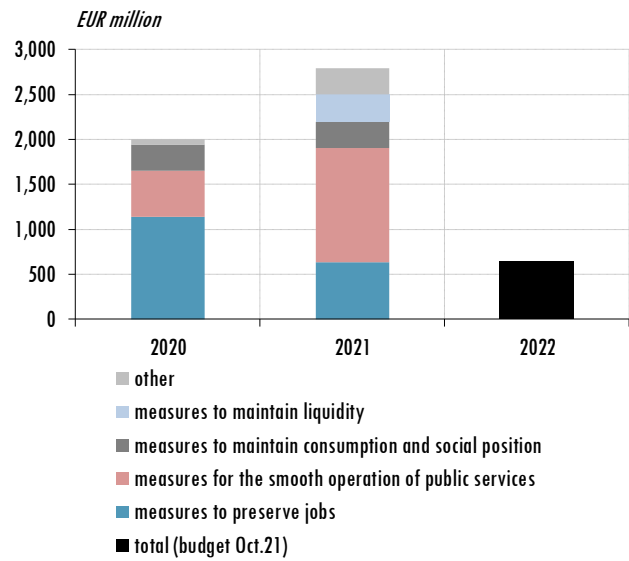
⁶ For more information see <https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalna-politika/Blagajne-JF/Pregled-javnofinancnih-gibanj-september-2021.pdf>. (Only in Slovene)

Figure 5: COVID measures with direct impact on the balance



Source: MoF, FURS, FC calculations.

Figure 6: State budget expenditure for COVID measures



Source: MoF, FC calculations.

- In 2021, the state budget expenditure for COVID-related measures amounted to around EUR 800 million more than the previous year. The largest part of the expenditure was staff allowances amounting to around EUR 820 million, which is four times more than the previous year. Around EUR 630 million was paid for job preservation measures, which is almost half the

Table 3: State budget expenditure for COVID measures (EUR million)

	Mar.-Dec. 2020	Jan.-Dec. 2021	TOTAL
State budget expenditure for COVID measures	2,004	2,790	4,794
Measures to preserve jobs	1,136	633	1,769
Compensation to temporary laid-off employees	328	271	599
Payment of social contributions for temporary laid-off employees	124	0	124
Partial subsidisation of short-time working	36	39	75
Payment of contributions for the pension and disability insurance of employees who worked during the epidemic	435	1	436
Basic income and social contributions for the self-employed and other beneficiaries	196	238	434
Sick pay for employed persons is fully covered by the ZZS	19	4	22
Crisis bonus	0	56	56
Subsidising minimum wage	0	24	24
Measures for the smooth operation of public services	515	1,273	1,788
Employee bonuses	204	822	1,026
Control of the epidemic (protective equipment, etc.)	132	385	517
Measures in education, sport and culture	29	30	59
Compensation for healthcare service providers due to loss of business, incl. concessionaires	105	9	115
Provision of funds to the ZZS	45	26	72
Measures to maintain consumption and social position	291	287	578
Tourist voucher payments	128	228	356
Solidarity bonus for various groups	163	59	222
Measures to maintain liquidity	0	309	309
Reimbursement of fixed costs	0	309	309
Other expenditure	61	288	349

Source: MoF, FURS, FC calculations.

amount paid in 2020. This was partly due to a shorter period of activity restrictions and partly due to the relatively rapid economic recovery. Within the framework of these measures, a lower amount was earmarked for temporary lay-offs while a higher amount was earmarked for the universal basic income paid to self-employed persons and other eligible beneficiaries in comparison to the year before. Both measures expired at the end of June. Expenditure on measures to contain the epidemic (vaccination, testing, protective equipment, etc.) was also higher than in 2020, as was expenditure for tourist vouchers with the introduction of new vouchers and the extension of the 2020 vouchers.

- The budget adopted for 2022 sets out EUR 640 million for COVID-related measures. It is mainly made up of the funds from the current budgetary reserves for unforeseeable expenditure (EUR 166 million), while around EUR 120 million, most of which is expected to be EU funds, should be earmarked for investments, in particular in health infrastructure. Subsidies are expected to account for EUR 82 million, around EUR 58 million for programmes for early detection of infections. EUR 35 million is envisioned for the payment of tourist vouchers, but this amount is likely to be higher when the validity of vouchers is extended.⁷ If the epidemic continues, the total expenditure for COVID-related measures will most probably again be higher than foreseen at the time of the adoption of the budget.
- According to the data available from the Financial Administration of the Republic of Slovenia, on 3 January 2022 the total sum of funds actually repaid so far or based on issued decisions for the reimbursement of aid amounted to EUR 105 million. Most of this comprises decisions on subsidising temporary lay-offs (EUR 61 million).
- According to the data available from the Financial Administration of the Republic of Slovenia, EUR 307 million of the EUR 472 million in approved deferrals or instalment payments of tax liabilities were repaid by the end of December 2021.

⁷ According to data from the Financial Administration of the Republic of Slovenia, 72% of the 2020 vouchers (EUR 259 million) and 61% of the 2021 vouchers (EUR 113 million) had been redeemed by 2 January 2022. This means that the total value of vouchers still potentially redeemable amounts to around EUR 170 million.